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Governor Sean Parnell
STATE OF ALASKA

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February 9, 2010

The Honorable Gary Stevens
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Stevens,

Under the authority of Art. III, Sec. 18 of the Alaska Constitution, I am transmitting a bill that proposes four discrete changes to Alaska's oil and gas production tax. The bill will provide incentives for explorers and producers to continue to invest in Alaska. The proposed changes will encourage investment and employment within the state, and ultimately, increase production of the state's oil and gas resources.

I remain committed to considering all proposals and ideas that will result in increased exploration and drilling that produce more oil and jobs for Alaskans.

First, the bill will encourage investment by creating a new 30 percent alternative tax credit for qualified costs closely related to well drilling and work over operations designed to enhance current well operations. The taxpayer will have to claim the 30 percent credit within six months of completing the qualifying activity, and will have to submit enough information for the Department of Revenue to determine that the expenditures qualify for the credit.

Second, the bill will allow qualified applicants, regardless of their future spending levels, to receive cash refunds for tax credits that the applicants received for qualified capital expenditures. Under current law, an applicant cannot qualify for a cash refund unless, within 24 months of receiving the tax credit certificate, the applicant incurred a qualified capital expenditure or successfully bid on a lease on State land. If the applicant is unable to meet either requirement, the applicant cannot receive payment for the qualified capital expenditures the applicant invested in the state. To solve this problem, the bill will eliminate the requirement that the applicant make additional capital expenditures or be the successful bidder for a lease on State land.

Third, the bill will allow producers and explorers who qualify for the 20 percent tax credit under AS 43.55.023 for capital expenditures to use the credit in the year that the credit is earned. Currently, producers and explorers are required to spread the benefit over two years. Allowing producers and explorers the full value of their credits in one year would increase the amount available for further exploration activities and for work on currently producing wells.

Finally, the bill will allow the Department of Revenue to waive interest for certain underpayments of taxes due before the effective date of certain regulations implementing the production tax. This provision will apply only if regulations to implement the production tax are not yet in effect at the time the annual tax payments are due, and only if the underpayment results from the producer's good faith estimation of the tax due. Should it be determined that the taxpayer overpaid the amount of tax due under the regulations in effect at the time of payment and that a refund is due, no interest will be due on a refund made within the time period specified in the bill.

With these changes, we will continue to responsibly maximize and invest in Alaska's oil and gas resources. I urge your prompt and favorable action on this measure.

Sincerely,

Sean Parnell

Sean Parnell
Governor

Enclosure

State of Alaska
Department of Revenue
Commissioner's Office

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Sponsor Statement
HB 337 / SB 271
Oil Production Tax Credits

Governor Parnell's legislation to modify Alaska's oil taxes (HB 337 and SB 271) is intended to create Alaska jobs, increase production and TAPS throughput quickly, and encourage new companies to explore in Alaska. This is accomplished by providing incentives for explorers and producers only if they do on the ground work in Alaska, by expanding investment credits for that work, allowing companies to enjoy the entire benefit of credits earned, and waiving interest accrued due to retroactive regulations.

These changes will encourage investment in jobs and increased production of the state's oil and gas resources.

- **Encourages Investment by Expanding Investment Credits.**

  The bill increases to 30 percent a tax credit for costs related to drilling wells, including "work over" wells in existing fields that are now excluded from the credit.

  Primary Benefit: Most valuable for infill drilling programs within existing units, like Prudhoe Bay and Kuparuk. Current credits focus on exploration and other remote operations far removed from existing operations. This credit is focused on existing fields where infill drilling and work over wells can be done quickly resulting in new jobs immediately and new production within months.

- **Eliminates the payment delay for explorers by allowing the state to buy capital credits earned by explorers regardless of future spending levels.**

  The bill will allow those who receive credit certificates to receive cash refunds regardless of their future spending levels. Currently, an explorer cannot qualify for a cash payment from the state for its credit certificate unless, within 24 months of receiving the tax credit certificate, the explorer makes additional expenditures or successfully bids on a state oil lease. The bill eliminates this reinvestment requirement.

  Primary Benefit: Explorers can invest with complete confidence that they can monetize their earned tax credits, improving the economics of their project.

- **Allows all companies to enjoy the entire benefit of their capital credits in the year they are earned, eliminating the requirement to spread the credit over two years.**

  The bill allows companies to use their entire tax credits in the year that the credit is earned. Currently, producers and explorers are required to spread the benefit over two years.

  Primary Benefit: Increases the value of the tax credits by allowing them to be monetized quickly.

- **Provides a waiver of interest charges on late payments caused by the retroactive application of new regulations.**

  The bill waives interest calculations for underpayments of taxes due to the retroactive effective date of regulations implementing the production tax. This provision will apply if the underpayment is the result of the producer's good faith estimation of the tax due.

  Primary Benefit: Is simply fairer. This provides for a more just outcome when a producer makes a tax payment based on a good faith understanding of the tax laws, and then regulations are made retroactive to before the time that the payment was due.

SENATE BILL NO. 271

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 2/10/10
Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to interest on certain underpayments or overpayments for the oil and gas production tax, to certificates for certain oil and gas production tax credits for qualified capital expenditures, and to alternative tax credits for expenditures for certain oil and gas development and exploration activities for the oil and gas production tax; relating to the use of the oil and gas tax credit fund to purchase certain tax credit certificates; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* **Section 1.** AS 43.55.020 is amended by adding a new subsection to read:

(i) Notwithstanding any contrary provision of AS 43.05.225 or (g) or (h) of this section, if the amount of a tax payment, including an installment payment, due under (a)(1) - (4) of this section is affected by the retroactive application of a regulation adopted under this chapter, the department shall determine whether the retroactive application of the regulation caused an underpayment or an overpayment of the amount due and adjust the interest due on the affected payment as follows:

(1) if an underpayment of the amount due occurred, the department shall waive interest that would otherwise accrue for the underpayment before the first day of the second month following the month in which the regulation became effective, if the department determines that

(A) the producer's underpayment resulted because the regulation was not in effect when the payment was due; and

(B) the producer made a good faith estimate of its tax obligation in light of the regulations then in effect when the payment was due, and paid the estimated tax;

(2) if an overpayment of the amount due occurred and the department determines that the producer's overpayment resulted because the regulation was not in effect when the payment was due, the obligation for a refund for the overpayment does not begin to accure interest earlier than the following, as applicable:

(A) except as otherwise provided under (B) of this paragraph, the first day of the second month following the month in which the regulation became effective;

(B) 90 days after an amended statement under AS 43.55.030(a) and an application to request a refund of production tax paid is filed, if the overpayment was for a period for which an amended statement under AS 43.55.030(a) was required to be filed before the regulation became effective.

* **Sec. 2.** AS 43.55.023(a) is amended to read:

(a) A producer or explorer may take a tax credit for a qualified capital expenditure as follows:

(1) notwithstanding that a qualified capital expenditure may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a qualified capital expenditure may also elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that

expenditure; [HOWEVER, NOT MORE THAN HALF OF THE TAX CREDIT MAY BE APPLIED FOR A SINGLE CALENDAR YEAR;]

(2) a producer or explorer may take a credit for a qualified capital expenditure incurred in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer

(A) agrees, in writing, to the applicable provisions of **AS 43.55.025(f)** [AS 43.55.025(f)(2)];

(B) submits to the Department of Natural Resources all data that would be required to be submitted under **AS 43.55.025(f)** [AS 43.55.025(f)(2)].

* **Sec. 3.** AS 43.55.023(d) is amended to read:

(d) Except as limited by (i) of this section, a person that is entitled to take a tax credit under this section that wishes to transfer the unused credit to another person or obtain a cash payment under AS 43.55.028 may apply to the department for **a** transferable tax credit **certificate** [CERTIFICATES]. An application under this subsection must be in a form prescribed by the department and must include supporting information and documentation that the department reasonably requires. The department shall grant or deny an application, or grant an application as to a lesser amount than that claimed and deny it as to the excess, not later than 120 days after the latest of (1) March 31 of the year following the calendar year in which the qualified capital expenditure or carried-forward annual loss for which the credit is claimed was incurred; (2) the date the statement required under AS 43.55.030(a) or (e) was filed for the calendar year in which the qualified capital expenditure or carried-forward annual loss for which the credit is claimed was incurred; or (3) the date the application was received by the department. If, based on the information then available to it, the department is reasonably satisfied that the applicant is entitled to a credit, the department shall issue the applicant **a** [TWO TRANSFERABLE] tax credit **certificate** [CERTIFICATES, EACH FOR HALF OF THE AMOUNT OF THE CREDIT]. The credit shown on [ONE OF] the **certificate** [TWO CERTIFICATES] is available for immediate use. [THE CREDIT SHOWN ON THE SECOND OF THE TWO CERTIFICATES MAY NOT BE APPLIED AGAINST A TAX FOR A CALENDAR

YEAR EARLIER THAN THE CALENDAR YEAR FOLLOWING THE CALENDAR YEAR IN WHICH THE CERTIFICATE IS ISSUED, AND THE CERTIFICATE MUST CONTAIN A CONSPICUOUS STATEMENT TO THAT EFFECT.] A certificate issued under this subsection does not expire.

* **Sec. 4.** AS 43.55.025(a) is repealed and reenacted to read:

(a) Subject to the terms and conditions of this section, a 30 percent credit against the production tax levied by AS 43.55.011(e) is allowed for exploratory well expenditures if

(1) the exploration expenditures are incurred and paid by an explorer that holds an interest in the exploratory well for which the production tax credit is claimed;

(2) the exploratory well encounters an oil or gas deposit or a dry hole;

(3) the exploratory well has been completed, suspended, or abandoned at the time the explorer claims the tax credit under (f) of this section;

(4) the exploratory well expenditures are for goods, services, or rentals of personal property reasonably required for the surface preparation, drilling, casing, cementing, and logging of the well, and, in the case of a dry hole, for the expenses required for abandonment if the well is abandoned no later than 18 months after the date the well was spudded;

(5) a predrilling conference was held with the Department of Natural Resources to discuss the drilling program and the data acquisition scope and strategy; and

(6) the well is not a service well, a stratigraphic test well, or a development well.

* **Sec. 5.** AS 43.55.025(b) is repealed and reenacted to read:

(b) Subject to the terms and conditions of this section, a 30 percent credit against the production tax levied by AS 43.55.011(e) is allowed for development well expenditures if

(1) the development well expenditures are incurred and paid by a producer that holds an interest in the development well for which the production tax credit is claimed;

(2) the development well is drilled to a known productive pool and intended to be a producing well at the time the producer claims the tax credit under (f) of this section;

(3) the development well expenditures are for goods, services, or rentals of personal property reasonably required for redrilling, casing, cementing, logging, completing, workover operations, or other operations intended by the producer to increase or enhance well production from the known productive pool; and

(4) the well is not a service well, a stratigraphic test well, or an exploratory well.

* **Sec. 6.** AS 43.55.025(c) is repealed and reenacted to read:

(c) Subject to the terms and conditions of this section, a 40 percent credit against the production tax levied by AS 43.55.011(e) is allowed for exploratory well expenditures if

(1) the exploration expenditures qualifiy for a credit under (a) of this section; and

(2) the exploratory well is located not less than 25 miles outside of the outer boundary, as delineated on July 1, 2003, of any unit that is under a plan of development, except that for a well for a Cook Inlet prospect to qualify under this paragraph, the well must be located not less than 10 miles outside the outer boundary, as delineated on July 1, 2003, of any unit that is under a plan of development.

* **Sec. 7.** AS 43.55.025(d) is repealed and reenacted to read:

(d) Subject to the terms and conditions of this section, a 40 percent credit against the production tax levied by AS 43.55.011(e) is allowed for seismic exploration expenditures if the seismic exploration was conducted outside the boundaries of a production unit or an exploration unit. However, the amount of the expenditure that is otherwise eligible under this subsection is reduced proportionately by the portion of the seismic exploration activity that crossed into a production unit or an exploration unit.

* **Sec. 8.** AS 43.55.025(e) is repealed and reenacted to read:

(e) Notwithstanding (a), (b), (c), or (d) of this section,

(1) an exploration or development well credit against the production

tax levied by AS 43.55.011(e)

(A) must be for exploration or for development well expenditures incurred for work performed after June 30, 2010, and before July 1, 2016;

(B) may not be for administration, supervision, engineering, lease operating, geological, management, community relations, or environmental costs; bonuses, taxes, or other payments to governments related to the well; costs, including repairs and replacements, arising from or associated with fraud, wilful misconduct, gross negligence, criminal negligence, or violation of law, including a violation of 33 U.S.C. 1319(c)(1) or 1321(b)(3) (Clean Water Act); or other costs that are generally recognized as indirect costs or financing costs; and

(C) may not be incurred for an exploration well or seismic exploration that is included in a plan of exploration or a plan of development for any unit before May 14, 2003; and

(2) a certain exploration or development well expenditure may be claimed only once under this section.

* **Sec. 9.** AS 43.55.025(f) is amended to read:

(f) For a production tax credit under this section,

(1) an explorer **or producer** shall, in a form prescribed by the department and, except for a credit under (k) of this section, within six months of the completion of the exploration activity **or development well activity**, claim the credit and submit information sufficient to demonstrate to the department's satisfaction that the claimed exploration **or development well** expenditures qualify under this section; in addition, the explorer **or producer** shall submit information necessary for the commissioner of natural resources to evaluate the validity of the explorer's **or producer's** compliance with the requirements of this section;

(2) an explorer **claiming a credit under (a), (c), or (d) of this section** shall agree, in writing,

(A) to notify the Department of Natural Resources, within 30 days after completion of seismic or geophysical data processing, completion of well drilling, or filing of a claim for credit, whichever is the latest, for which exploration costs are claimed, of the date of completion and submit a report to that department describing the processing sequence and providing a list of **<u>all</u>** data sets [AVAILABLE];

(B) to provide to the Department of Natural Resources, within 30 days after the date of a request, unless a longer period is provided by the Department of Natural Resources, specific data sets, ancillary data, and reports identified in (A) of this paragraph; in this subparagraph,

(i) a seismic or geophysical data set includes the data for an entire seismic survey, irrespective of whether the survey area covers nonstate land in addition to state land or land in a unit in addition to land outside a unit;

(ii) well data include all analyses conducted on physical material, and well logs collected from the well, results, and copies of data collected and data analyses for the well, including well logs; sample analyses; testing geophysical and velocity data including seismic profiles and check shot surveys; testing data and analyses; age data; geochemical analyses; and tangible material;

(C) that, notwithstanding any provision of AS 38, information provided under this paragraph will be held confidential by the Department of Natural Resources,

(i) in the case of well data, until the expiration of the 24-month period of confidentiality described in AS 31.05.035(c), at which time the Department of Natural Resources will release the information after 30 days' public notice unless, in the discretion of the commissioner of natural resources, it is necessary to protect information relating to the valuation of unleased acreage in the same vicinity, or unless the well is on private land and the owner, including the lessor but not the lessee, of the oil and gas resources has not given permission to release the well data;

(ii) in the case of seismic or other geophysical data, other than seismic data acquired by seismic exploration subject to (k) of this section, for 10 years following the completion date, at which time the Department of Natural Resources will release the information after 30 days' public notice, except as to seismic or other geophysical data acquired from private land, unless the owner, including a lessor but not a lessee, of the oil and gas resources in the private land gives permission to release the seismic or other geophysical data associated with the private land;

(iii) in the case of seismic data obtained by seismic exploration subject to (k) of this section, only until the expiration of 30 days' public notice issued on or after the date the production tax credit certificate is issued under (5) of this subsection;

(3) if more than one explorer **or producer** holds an interest in **an exploration** [A] well**, development well,** or seismic exploration, each explorer **or producer** may claim an amount of credit that is proportional to the explorer's **or producer's** cost incurred **and paid**;

(4) **if an explorer is not also a producer subject to the production tax under this chapter,** the department may **nonetheless** exercise the full extent of its powers as though the explorer were a taxpayer under this title, in order to verify that the claimed expenditures are qualified exploration expenditures under this section; and

(5) if the department is satisfied that the explorer's **or producer's** claimed expenditures are qualified under this section and that all data required to be submitted under this section have been submitted, the department shall issue to the explorer **or producer** a production tax credit certificate for the amount of credit to be allowed against production taxes levied by AS 43.55.011(e); notwithstanding any contrary provision of AS 38, AS 40.25.100, or AS 43.05.230, the following information is not confidential **and may be published**:

(A) the explorer's **or producer's** name;

(B) the date of the **credit** application;

(C) the location of the well or seismic exploration;

(D) the date of the department's issuance of the certificate;

[AND]

(E) the date on which the information required to be submitted under this section will be released**; and**

(F) the type of seismic or geophysical data or well data that will be released.

* **Sec. 10.** AS 43.55.025(g) is amended to read:

(g) An explorer **or producer**, other than an entity that is exempt from taxation under this chapter, may transfer, convey, or sell its production tax credit certificate to any person, and any person who receives a production tax credit certificate may also transfer, convey, or sell the certificate.

* **Sec. 11.** AS 43.55.025(k) is amended to read:

(k) Subject to the terms and conditions of this section, if a claim is filed under (f)(1) of this section before January 1, 2016, a credit against the production tax levied by AS 43.55.011(e) is allowed in an amount equal to five percent of an eligible expenditure under this subsection incurred for seismic exploration performed before July 1, 2003. To be eligible under this subsection, an expenditure must

(1) have been for seismic exploration that

(A) obtained data that the commissioner of natural resources considers to be in the best interest of the state to acquire for public distribution; and

(B) was conducted outside the boundaries of a production unit; however, the amount of the expenditure that is otherwise eligible under this section is reduced proportionately by the portion of the seismic exploration activity that crossed into a production unit; and

(2) qualify under **(e)(2)** [(b)(3)] of this section.

* **Sec. 12.** AS 43.55.028(e)(2) and 43.55.028(e)(3) are repealed.

* **Sec. 13.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION: APPLICABILITY OF SEC. 1 OF THIS ACT. Section 1 of this Act applies to taxes, including installment payments of estimated tax, due on or after February 27, 2007.

* **Sec. 14.** The uncodified law of the State of Alaska is amended by adding a new section to read:

REVISOR'S INSTRUCTION. The revisor of statutes is instructed to change the section heading of AS 43.55.025 from "Alternative tax credit for oil and gas exploration" to "Alternative tax credit for exploration and development well expenses".

* **Sec. 15.** The uncodified law of the State of Alaska is amended by adding a new section to read:

RETROACTIVITY OF SECS. 1 - 3 OF THIS ACT. (a) Section 1 of this Act is retroactive to February 28, 2007.

(b) Sections 2 and 3 of this Act are retroactive to January 1, 2010.

* **Sec. 16.** The uncodified law of the State of Alaska is amended by adding a new section to read:

RETROACTIVITY OF REGULATIONS. Notwithstanding any contrary provision of AS 44.62.240, if the Department of Revenue expressly designates in the regulation that the regulation applies retroactively to a specific date, the regulation adopted by the Department of Revenue to implement, interpret, make specific or otherwise carry out secs. 1, 2, or 3 of this Act applies retroactively to that date.

* **Sec. 17.** Sections 4 - 12 of this Act take effect July 1, 2010.

* **Sec. 18.** Except as provided in sec. 17 of this Act, this Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 271
(S) Publish Date: 2/10/10

Identifier (file name): LL1057-DNR-OG-02-08-2010
Title: Oil and Gas Tax Amendments
Sponsor: Rules Committee
Requester: Governor

Dept. Affected: Natural Resources
RDU: Resource Development
Component: Oil and Gas Development
Component Number: 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2011**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )							

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF							
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost:

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

The bill will, first, change the current provision under AS 43.55.023(b) that only half the various tax credits could be taken in any one year. This limitation spreads the benefits of the credit out over a couple of years, thereby diluting the incentive that the credit provides to the extent that a producer/investor must wait before receiving the full benefit of the credit. This bill would also accelerate most investor's receipt of the full value of the credit. Second, the bill would extend the current 30% credit provided under 43.55.025 to include development drilling (this credit is available now only for exploration wells drilled beyond three-miles of another well. This credit will reduce the taxpayer's tax liability and, other things being equal, contribute to improved economics for development drilling. Finally, the bill allows a small producer to monetize the credit more easily by eliminating the requirement that the producer spend additional money before receiving the credit monies.

The effect on royalty revenue is an indeterminant positive.

Prepared by: Kevin Banks, Director — Phone 269-8800
Division: Oil and Gas — Date/Time 2/8/10 3:00 PM
Approved by: Tom Irwin, Commissioner, Natural Resources — Date 2/8/2010

STATE OF ALASKA
2010 LEGISLATIVE SESSION

BILL NO. SB 271

ANALYSIS CONTINUATION

In these three ways, the bill will encourage additional investment in oil and gas development in Alaska, leading to an expected increase in the amount of oil and gas produced from State lands. This should increase the amount of royalty revenue collected, the exact amount of this increase is indeterminate. This bill also requires that the producer submit to the DNR withing 30 days of the request for a credit under AS 43.55.025 data on development well activity under Section 9. While the DNR currently reviews seismic and exploration well information, the requirement to look at development wells as well may take additional staff time. However, we think we will be able to undertake this review with current staff.

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number:	2
Bill Version:	SB 271
(S) Publish Date:	2/10/10

Identifier (file name):	1057-DOA-AOGCC-01-27-10	Dept. Affected:	Admin
Title	Relating to interest on certain underpayments...for Oil and Gas production tax...	RDU	AOGCC
		Component	AOGCC
Sponsor	Rules Committee		
Requester	Governor	Component Number	2010

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2011**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )							

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Interagency Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost: ______

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

Any additional activity that industry would undertake in areas the Alaska Oil and Gas Conservation Commission regulates because of this bill would be part of ongoing agency responsibilities and any additional workload would be managed by existing staff. The agency therefore submits a zero fiscal note.

Prepared by:	Jody J. Colombie, Special Assistant I	Phone	(907 793-1221
Division	Alaska Oil and Gas Conservation Commission	Date/Time	1/27/10 4:00 PM
Approved by:	Rachael Petro, Deputy Commissioner	Date	1/27/2010
	Department of Administration		

(Revised 11/6/2009 OMB)

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 3 **CORRECTED**
Bill Version: SB 271
(S) Publish Date: 3/9/10

Identifier (file name): SB271-REV-TAX-02-12-10
Title: Oil and Gas Tax Adjustements
Sponsor: Rules
Requester: Request of the Governor

Dept. Affected: Revenue
RDU: Taxation and Treasury
Component: Tax Division
Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
OPERATING EXPENDITURES	**FY 2011**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Personal Services							
Travel							
Contractual							
Supplies							
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous							
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES							
CHANGE IN REVENUES ( )	***	***	***	***	***	***	***

***** See Analysis Section for Additional Information *****

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2010) cost: ***

POSITIONS

Full-time	**0.0**	0.00	0	0	0	0	0
Part-time							
Temporary							

ANALYSIS: *(Attach a separate page if necessary)*

See Attached.

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Division: Tax Division
Date/Time 2/08/10; 12:13pm
Approved by: Ginger Blaisdell, Director
Administrative Services Division
Date 2/12/10; 12:26pm

(Revised 11/6/2009 OMB)

STATE OF ALASKA **BILL NO.** SB 271
2010 LEGISLATIVE SESSION

ANALYSIS CONTINUATION

Bill Language:

This bill makes four refinements to Alaska's oil and gas production tax. The refinements and the revenue impact of each are discussed below:

1. Increased credits for well related expenditures: This bill would modify AS 43.55.025 to allow a 30 percent credit against production tax for exploratory well expenditures and most development well expenditures. For wells more that 25 miles outside of existing units (or more than 10 miles outside of Cook Inlet units) the credit is 40 percent of exploratory well expenditures. These credits would also be an increase in credits for well related expenditures. Currently, companies are allowed a 20 percent credit for well related qualified capital expenditures under the provisions of AS 43.55.023. There are no current provisions for credits against operating expenditures and this bill would extend the 30% credit to well related operating expenditures as well as capital expenditures. This provision would take effect July 1, 2010.

Under current projected spending and production levels, revenues would be estimated to be reduced by $325 million in FY 2011, $335 million in FY 2012, and $350 million in FY 2013-2016. However, the Department of Revenue provides an indeterminant fiscal impact to revenues because the new incentives will likely spur higher spending levels on development activity, which would result in more credits being earned, but would also be expected to increase production, thus providing an offsetting increase in revenue.

2. Removing reinvestment requirement for state purchase of capital credits: For companies applying for state purchase of capital credits, this bill would remove the requirement that the companies reinvest an amount equal to the amount of the credit purchased within 24 months after applying for a credit certificate. This provision would take effect July 1, 2010.

This provision is expected to be revenue neutral as the credits will reduce revenue whether the state purchases the credits or other companies purchase and subsequently apply the credits against a tax liability.

3. Capital credits no longer required to be spread over two years: Producers and explorers receive a capital expenditure credit in the amount of 20 percent of the qualified capital expenditure. This bill would remove the provision that no more than half of the tax credit may be applied for in a single calendar year. As a result, the entire 20 percent credit could be applied in the year it is earned. This is retroactive to January 1, 2010.

There is a revenue reduction for FY 2010 of $120 million because of the immediate effective date of the changes to spreading of capital credits. For FY 2011-FY 2013, the revenue reduction from changes to the spreading of capital credits will be about $50 million per year. For FY 2014 and beyond, the revenue impacts will be negligible.

4. Interest waived for changes in tax liability as a result of to retroactive regulations changes: Following adoption of retroactive regulations to the oil and gas production tax under AS 43.55, the Department of Revenue is required to determine whether the retroactive application of the regulation caused an overpayment or underpayment of the amount due in tax. For an underpayment, interest is waived as long as the underpayment was due to the regulation and the producer made a good faith estimation and payment of its tax obligation under regulations in place when the payment was due. For an overpayment, interest does not accrue until either the first day of the second month following the regulation taking effect, or 90 days after the Department receives an amended annual production tax return with request for refund. The interest provisions are retroactive to February 2007. At this time it is uncertain whether there would be any revenue impact from this change, since it is unclear whether there was any underpayment or overpayment due to the retroactive regulations. The Department of Revenue does not include interest payments in our revenue projections, therefore this change would not affect our revenue forecast.

*** We cannot currently make a determination of the revenue impacts of the bill. For this reason, asterisks are include in our revenue estimates for this fiscal note.

Expenditures:
The Department will be able to implement the provisions of this bill using existing resources.